What does a trader do?

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One of the most desirable job at an investment bank is being a trader. But what do professional traders at investments banks actually do? First of all, its not simply about buying and selling stocks to maximise profits - roles and objectives tend to be a bit more complex. Let us go through the two main types of traders at an investment bank.

Market makers

The large majority of traders at investment banks are market makers. A market maker is essentially a middle man: the bank customers will call them to buy or sell a financial instrument, and their job will then be to offer them a price, and find other customers to buy or sell to, and pocket the price differential (commissions). Note that they are taking a calculated risk and this is why they are called traders. For example, if they buy shares in Google from a customer and the price falls before they are able to find another customer to sell to, they risk making a loss. This is why a market maker will take a spread on each stock they buy, either buying at a slight discount or selling at a slight premium. Using that previous example, as a market maker you can offer to buy the google stock from your customer at $1,000, and then offer to sell it at $1,001 to another customer. The $1 may not seem much, but the trading volumes are very large, so the profits can be substantial.

Proprietary traders

Proprietary traders do not deal with clients, but buy and sell financial instruments on their own account, aiming to make a profit. They are using the bank's money, and are allocated an amount of money to trade with. This is much riskier for the investment bank, and this is why proprietary traders remain a minority. Those traders are kept separate from clients, so taht they cannot engage in what is called "front-running". Front running is placing orders ahead of a client to benefit from a movement in price. For example, if your client calls you to place a very large order of Google stock that would move the share price, the trader could theoretically place an order beforehand and benefit from the price increase afterward, "piggy-backing" on the client.

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